2017 ANNUAL REMUNERATION REPORT

ROME, MARZO 15, 2017

TERNA S.P.A. AND TERNA GROUP

2017

Terna

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Transmitting energy

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Letter from the Chairman of the Remuneration Committee

Dear Shareholders,

Together with the Directors Gabriella Porcelli and Fabio Corsico, in my capacity as Chairman of Terna's Remuneration Committee which I have the honour of holding, I am pleased to present the 2017 Annual Remuneration Report. This Report, an asset of all stakeholders, goes beyond its purely formal role as a legal and legislative requirement and looks to increasingly distinguish itself as a defining moment of dialogue with the community and as a real and concrete example of the ongoing effort that goes into open, transparent and regular discussion with all shareholders and stakeholders concerning the remuneration systems adopted by the Company.

As in prior years – also thanks to the ongoing efforts made to listen to and acknowledge stakeholder requests – the remuneration policy of the Terna Group aims to be distinguished by its transparency, the quality of the remuneration models and the alignment between management's actions and the interests of shareholders. These values are able to attract the best professional skills to fill the most strategic managerial roles, enhance human resources and guarantee equal opportunities.

Starting precisely from these pillars, the Remuneration Committee's commitment in recent years has been to propose to the Board of Directors the adjustments to Terna's remuneration model to guarantee constant alignment with the Group's strategic objectives, market best practices, our shareholders' expectations and Italian and European legislation.

Indeed, from the date it was established, this Committee has aimed to perform its role by carrying out the following activities and achieving the following results:

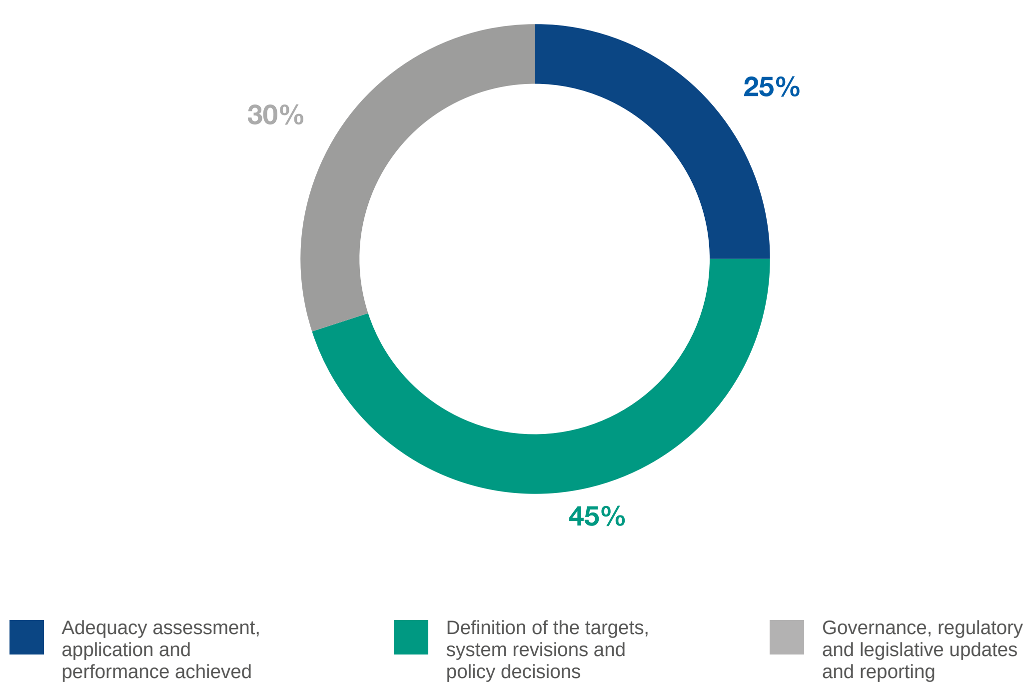
- continual adjustment to Terna's remuneration system to guarantee constant alignment with international best practices and Italian and European legislation to support and foster the Company's development in line with the Industrial Plan. Group performance and value creation confirm the quality of the remuneration policies: solid results and growth have been seen since the IPO;
- specific clawback clauses have been introduced on the variable part of the remuneration related to performance objectives;
- the BoD was supported when defining the new Long-Term Incentive Plan ("2016–2018 LTI Plan") which is characterised by:

- a three-year vesting period (compared to the biannual vesting period in the previous plan),
- deferred payment for a significant proportion of the incentive, so that the application of malus mechanisms becomes even more effective,
- linking the achievement of stock performance and economic/financial targets, such as Total Shareholder Return, and a sustainability target, in response to investors' growing attention to sustainability themes and in keeping with the importance that Terna attributes to socio-environmental responsibility issues;

- described the annual cycle of activities of the Remuneration Committee;
- improved the standards of disclosure and accessibility of the Annual Remuneration Report, noting the new regulations and acknowledging the points made by the proxy advisors and institutional investors and also restyling the presentation of the main content with the introduction of some graphical elements;
- provided significantly greater transparency in explaining the targets connected with variable incentives in both the short and long term, through a precise description of the content of the single targets and of the score curves associated with them;
- presented an overview of the elements that make up the compensation package of the Chairwoman, the Chief Executive Officer and the General Manager of the Company, as well as the Senior Executives with Strategic Responsibilities, also by way of representing the maximum payable amounts in connection with the variable remuneration components in the short and long term and with the pay mix of the CEO and General Manager;
- introduced the description, in the "Shareholder Engagement" paragraph, of the main communication initiatives undertaken with the main beneficiaries and users of the Company's Policy on the subject of remuneration;
- introduced a policy for Senior Executives with Strategic Responsibilities, who have been appointed for the first time within the Company, with effect from 1 January 2017.

These actions have allowed the Terna Group to improve the level of shareholder awareness and shareholders have actually gradually endorsed the Remuneration Policy, as seen in the strong increases in voting outcomes.

Analysing how the Committee interprets its own role, allocating its commitment to different macro areas of responsibility illustrates that the work of the Committee has been structured in the following way:



As regards the contents of the new Remuneration Policy, as explained in detail in the text of the Report, given the approach of the natural expiry of the board mandate, it was decided that new elements should not be introduced that may limit the freedom of the new Board and the new Committee.

Since its listing on the stock exchange, the Terna group has constantly generated value for its shareholders, as shown in the charts presented below, achieving significantly better performance than both the Italian market and the relevant sector. This confirms the quality of the remuneration policies adopted.

The elements of the Remuneration Policy were endorsed by the Board of Directors, which, at its meeting on 15 March 2017, approved the present Report, structured, as provided for in Art. 123-ter of the Consolidated Law on Finance, in two separate sections:

- the first section, on which you are called to express a non-binding vote, describes the objectives and general principles which inspired Terna in defining its approach to remuneration of Directors and management, the governance procedures and the different parties relevant to the definition and implementation of the Remuneration Policy as well as the Remuneration Policy guidelines adopted for 2017;
- the second section, instead, presents the information on actions taken regarding remuneration in 2016, in line with the policy set out in last year's Remuneration Report.

In regards to the constant alignment of Terna's remuneration system with the evolving regulatory context and with changes in best practices, the Committee appreciated and considered of great value the feedback provided by investors.

We therefore hope that the work carried out during these years and the results achieved in terms of disclosure and the ongoing commitment to align Terna's remuneration policy with market best practices represent a significant reference for the activity of the future Remuneration Committee also.

Certain that Terna shareholders will also find this Report exhaustive and informative, we look forward to your continued support at the Shareholders' Meeting this year.

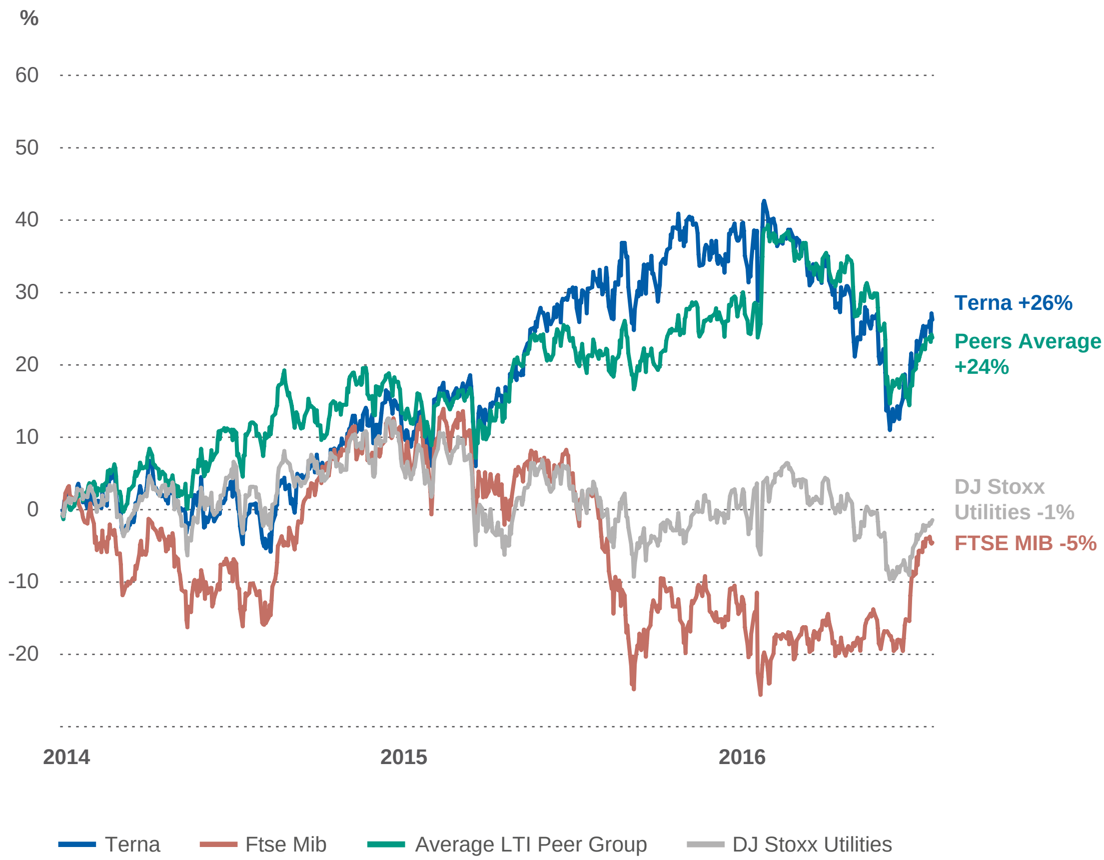
Yours sincerely,

Carlo Cerami
Chairman of the Remuneration Committee

TOTAL SHAREHOLDER RETURN FOR THE TERNA GROUP FROM JUNE 2014 TO 31/12/2016

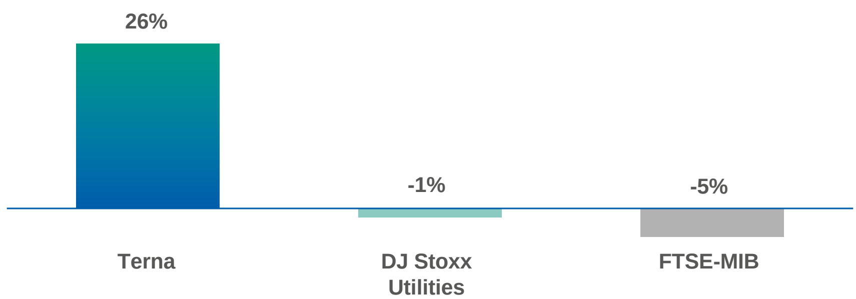
From June 2014 to the end of 2016 Terna delivered to its shareholders a Total Shareholder Return (TSR) of 26%, while the return recorded by FTSE MIB companies was negative, amounting to -5%. The benchmark European sector index (DJ Stoxx Utilities) also recorded a negative TSR of -1%.
Within the same period, Terna shareholders benefited from a return on investment that was higher than the average of the peer group identified for the purposes of the 2016–2018 LTI Plan (+24%).

PERFORMANCE OF TOTAL SHAREHOLDER RETURN FROM JUNE 2014



The "peer average" relates to: Snam, Red Electrica del España (REE), Enagas, National Grid, United Utilities and Severn Trent.
Source: Bloomberg

TSR FROM JUNE 2014 TO 2016 VS INDICES



Source: Bloomberg

ECONOMIC PERFORMANCE FROM IPO TO 2016

(amounts in € millions)

	2004 (IPO)	2016	Δ 16 vs IPO	Δ 16 vs IPO
Revenue	1,023	2,103	>2X	105.6%
EBITDA	683	1,545	>2X	126.2%
EBIT	512	1,036	>2X	102.3%
Group Net Income	236	633	>2,5X	168.3%

Foreword

This Report summarises the principles and guidelines followed by Terna S.p.A. (hereinafter, for brevity, also “Terna” or the “Company”) in order to define and monitor the remuneration policy and its implementation, with particular reference to the members of the administration and control bodies, the General Manager and the Senior Executives with Strategic Responsibilities.
The Company has voluntarily decided to expand the range of information it provides to enhance transparency to investors and to the market.

The document is subdivided into two sections:

- **Section I** illustrates the Policy adopted for 2017 and for the subsequent years by Terna for the remuneration of the Directors, the General Manager and Senior Executives with Strategic Responsibilities, specifying the general purposes pursued, the bodies involved and the procedures used for its adoption and implementation;
- **Section II** shows the amounts paid in financial year 2016 to the Directors, the Statutory Auditors and the General Manager.

This Report was prepared in compliance with the current law provisions[1] and is consistent with what established by Consob[2].
The Policy described in Section I was also prepared in line with the recommendations on the subject of remuneration of the Corporate Governance Code of listed companies (hereinafter “Corporate Governance Code”), in the version most recently approved in July 2015 and endorsed by Terna.
On 15 March 2017, Terna’s Board of Directors, following the proposal of the Remuneration Committee, approved Section I of the Report for 2017 which is submitted to a non-binding vote of the Shareholders’ Meeting called for the approval of the Separate Financial Statements as of 31 December 2016. Section II will also be taken to the same Shareholders’ Meeting only for informative purposes. As mentioned this section provides detailed information on remuneration paid in 2016.
The text of this Report is made available to the public, at the Company’s head office and in the Investors Relations - Corporate Governance section of the Company’s website www.terna.it, within the twenty-first day preceding the date of the Shareholders’ Meeting called to approve the financial statements related to the year 2016, as foreseen by the current law provisions.
The information documents related to the existing remuneration plans based on financial instruments can be found in the Investor Relations - Corporate Governance section of the Company’s website.

(1) Art. 123-*ter* of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Finance) which states that “at least twenty-one days before the date of the [...] Shareholders’ Meeting, listed companies must provide the public with a remuneration report, at the registered offices, on their websites and other methods established by CONSOB Regulations”. The same Article 123-*ter*, paragraph 6 of the CLF states that “the [...] Shareholders’ Meeting shall pass a resolution for or against the section of the remuneration report provided for in paragraph 3” (i.e. Section I of this document). This resolution “is not binding” but “the outcome of the vote is made available to the public”.

(2) Resolution No. 18049 of 23 December 2011 which amended Art. 84-*quater* of the Issuer Regulations issued by CONSOB itself to implement the CLF (see note 1).

Overview

<table>
<tr><th colspan="4">OVERVIEW</th></tr>
<tr><th>Component</th><th>Purposes and characteristics</th><th>Conditions for implementation</th><th>Amounts</th></tr>
<tr><td>Fixed</td><td>Remunerates the skills, the experience and the contribution required by the role.</td><td>Remunerative positioning assessed through market benchmarks, with respect to companies comparable for size, ownership structure and complexity of the business model.</td><td><u>Chairwoman</u>: € 238,000 gross per year (of which € 50,000 by way of emolument approved by the Shareholders' Meeting).
<u>CEO</u>: € 235,000 gross per year (of which € 35,000 by way of emolument approved by the Shareholders' Meeting).
<u>GM</u>: € 850,000 gross per year.
<u>Other SESR (*)</u>: linked to the position held and its relative responsibilities.</td></tr>
<tr><td>Short-term monetary incentive (MBO)</td><td>Provides an incentive to achieve and exceed the annual economic and financial targets set in the budget, and further non-economic annual targets.</td><td><u>CEO</u>
- 2017 Targets:
1 EBITDA
2. Generational Turnover Project.
<u>GM</u>
- 2017 Targets:
#1. Investments (weight 40%)
#2. Free Cash Flow (35%)
#3. Service Quality (10%)
#4. R&D Projects (15%)
<u>Other SESRs</u>
The annual incentive is linked to the target results assigned by the CEO for 50% and for the remaining 50% by the single targets connected to the organisational role held.
Clawback: executable in case of clearly incorrect or fraudulently altered figures, of serious and intentional breaches of law, of the Code of Ethics and of corporate regulations.</td><td><u>CEO</u>
• € 200,000 gross (ON/OFF) on achieving both targets.
In the event of achieving only one of the two targets, nothing is due.
<u>GM</u>
• € 300,000 gross if the weighted average of the scores of the single targets is 100%;
• € 450,000 gross (max) if the score of all the targets is at the maximum level (150%).
For intermediate figures linear interpolation is carried out.
If the weighted average of the scores of the single targets is less than 80%, nothing is due.
<u>Other SESRs</u>
• Percentages of the incentive equal to 40% of the annual base salary (RAL) for results to the target (100%) and equal to 60% for maximum results (150%).</td></tr>
</table>

Component	Purposes and characteristics	Conditions for implementation	Amounts
Long-term monetary incentive (LTI)	Scheme reserved for positions to which the most direct responsibilities for corporate results are attributed. The purpose is the long term alignment of management actions and shareholders' interests.	**GM and Other SESRs:** - *2016–2018 Targets:* *#1.* ***Cumulative gross profit*** *(weight 50%)* *#2.* ***TSR*** *- positioning of Terna in the peer group of reference (weight 40%)* *#3.* ***Dow Jones Sustainability Index*** *(DJSI) – average positioning of Terna in the years of the Plan (weight 10%)* - *Vesting:* three year period. - *Deferred payment:* 40% of the incentive is paid one year after the verification of performance targets' achievement. - *Clawback/malus:* executable in case of clearly incorrect or fraudulently altered figures, of serious and intentional breaches of law, of the Code of Ethics and of corporate regulations.	**GM** • **€ 375,000** gross per year if the weighted average of the scores of the single targets is 100%; • **€ 550,000** gross per year (max) if the score of all the targets is at the maximum level (150%). *For intermediate figures linear interpolation is carried out.* *If the weighted average of the scores of the three targets is less than 80% (min), nothing is due.* **Other SESRs** • Percentages of incentive between **40%** and **60%** of the annual base salary (RAL) for target results (=100%) and between 60% and 90% of the RAL for results up to the maximum (=150%)
Benefits	These are an integral part of the "remuneration package" and mainly deal with welfare and pension-related functions.	Defined in continuity with the Policy implemented in the last few years, the provisions of the relevant National Collective Employment Contract, and the corporate policies applicable to all Terna's management.	**GM, Other SESRs** *(and all the management)* • corporate contribution to the supplementary pension fund (FONDENEL); • registration in the supplemental health insurance fund (ASEM); • forms of insurance cover against risks of death and disability; • company car for company/private use.
Severance Payments	Severance indemnities aimed at protecting the Company's interests and at preventing any disputes.	Non-renewal on expiry of the mandate or early termination, excluding the case of dismissal for just cause and resignation not caused by reduction of delegated powers. *(Please note that for the CEO the existing role as executive director and the employment contract are indivisibly connected, so that the termination of one leads to the inevitable termination of the other role).*	**Chairwoman:** Termination benefits equal to 1/12 of the remuneration paid for each year in office. **CEO/GM:** The sum of the CEO's termination benefits and the GM's severance indemnities is equal to 24 months of the overall remuneration paid to the two positions.

(*) SESR = senior executives with strategic responsibilities

Changes in 2017

The main changes in 2017 is the inclusion of the identification and definition of the remuneration policy for Senior Executives with Strategic Responsibilities (SESR). These Senior Executives, selected from the 1 January 2017, hold the following organisational roles:

- Manager of the Corporate Affairs Division
- Manager of the Strategy and Development Division
- Manager of the Administration, Finance and Control Department
- Chief Executive Officer of Terna Rete Italia S.p.A.

The definition of a compensation package for this managerial group is included, in line with what has already been accrued at the appointment date.

Shareholder Engagement

Terna gives great importance to dialogue and continuous interaction during the year with the main addressees and users of its Remuneration Policy, in order to ensure constant improvement in the adoption of the best market practices, also by incorporating ideas for development, especially if received from shareholders and proxy advisors.

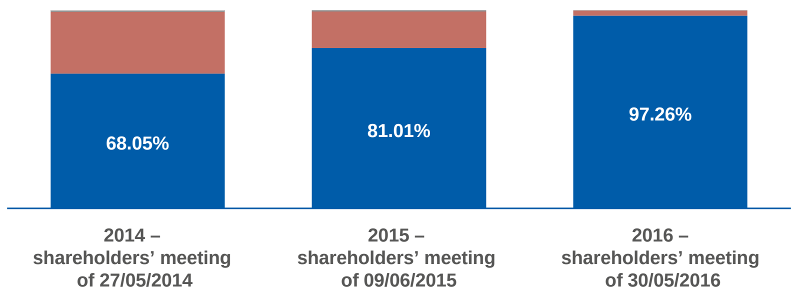
In 2016 individual meetings or conference calls were held with 16 leading institutional investors, with the aim of studying the considerations expressed by them in relation to the key points of the Remuneration Report submitted to the Shareholders for their meeting of 30 May 2016; the Company also organised meetings or conference calls with the main proxy advisors.

This dialogue has provided Terna’s technical departments and the Remuneration Committee with valuable feedback on the point of view of the shareholders and of the market more generally regarding the characteristics of Terna's remuneration policy.

This feedback, along with the voting results of the Shareholders’ Meeting on the Remuneration Report, has been a reference for the evaluation of new elements and improvements introduced in this document, to guarantee thorough disclosure and alignment of Terna’s remuneration policy with market best practices.

Finally, it is noted that, in order to further strengthen the alignment of interests in the long term between shareholders and Top Management, Total Shareholder Return was introduced as one of the KPIs of the 2016–2018 LTI Plan, also in line with the feedback received from the market. This is expressed in terms of Terna’s position compared to a group of comparable companies on a European basis.

TREND OF THE VOTING RESULTS FROM THE ANNUAL REMUNERATION REPORT (2014–2016)

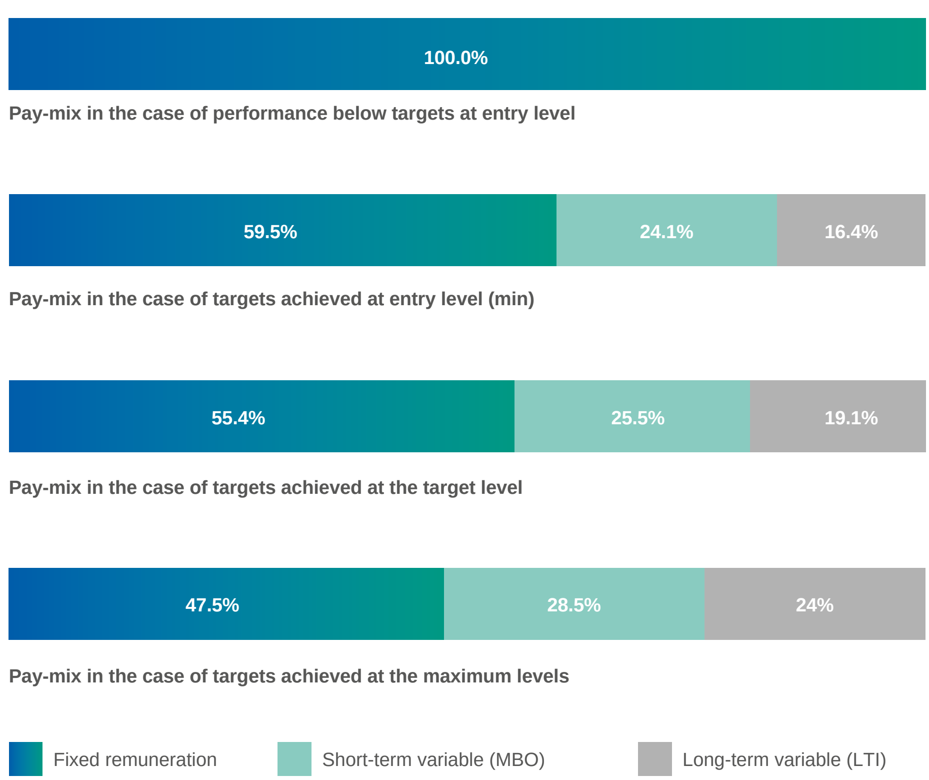


	2014 – shareholders' meeting of 27/05/2014	2015 – shareholders' meeting of 09/06/2015	2016 – shareholders' meeting of 30/05/2016
Non-voters	0.36%	0.00%	0.00%
Abstained	0.48%	0.68%	0.11%
Against	31.10%	18.31%	2.62%
For	68.05%	81.01%	97.26%

For Against Abstained Non-voters

Pay mix of the Chief Executive Officer / GM

With reference to the Chief Executive Officer, considering also his executive employment relationship, as GM, the pay mix shows the weight of the variable component in the various possible performance scenarios



Contents

SECTION I
REMUNERATION POLICY

Governance of the remuneration process

Corporate bodies and parties involved

The Policy on remuneration of the members of Terna's Board of Directors is defined in compliance with the legislative and statutory provisions, according to which:

- the Shareholders' Meeting determines the remuneration to which the Chairwoman and the members of the Board of Directors are entitled, at the moment of their appointment and for the entire duration of the mandate;
- the Board of Directors determines the remuneration of the Directors with delegated powers for participation in the Board Committees, after obtaining an opinion from the Board of Statutory Auditors.

In accordance with Terna's governance model, the Board is also responsible – in the context of performance plans, to which the determination of the Directors' variable remuneration is connected – for defining the targets and approving the business results.
In line with the recommendations contained in the Corporate Governance Code, finally, the Board of Directors is supported, for what concerns questions of remuneration, by a Remuneration Committee formed by independent Non-Executive Directors, with consultative and advisory functions on the subject.
The table presented below summarises the decision-making bodies, the proposal-making bodies and the supporting structures, for each party involved in the Policy.

CORPORATE BODIES AND PARTIES INVOLVED

Individual requiring	Decision-making body	Proposal-making body	Any independent expert consultants
CHAIRWOMAN	• Shareholders' Meeting •	• Shareholders • Remuneration Committee • Corporate Affairs Division/ Human Resource and Organisation Department	
CHIEF EXECUTIVE OFFICER	• *	• Remuneration Committee • Corporate Affairs Division/ Human Resource and Organisation Department	*Willis Tower Watson*
	• Shareholders' Meeting	• Shareholders	
GENERAL MANAGER	•	• Remuneration Committee • Corporate Affairs Division/ Human Resource and Organisation Department	*Willis Tower Watson*
SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES	• Chief Executive Officer	• Remuneration Committee • Corporate Affairs Division/ Human Resource and Organisation Department	*Willis Tower Watson*

* In addition to the decision taken by the Shareholders' Meeting.

Remuneration Committee

Composition

Terna's Remuneration Committee was set up in 2004; currently it is made up entirely of Non-Executive and Independent Directors, whilst one member was elected in the lists of the minorities. Moreover, in line with the Corporate Governance Code, at least one member of the Committee has suitable knowledge and experience in financial matters or remuneration policies, assessed by the Board of Directors at the time of appointment.
As of the date of this Report, the members of the Remuneration Committee, appointed by the Board of Directors on 27 May 2014, are:

Carlo Cerami, *Chairman*

Fabio Corsico

Gabriella Porcelli

Non-executive and **independent** directors pursuant to the Corporate Governance Code

In the course of the financial year 2016, the Committee held **3** meetings, with an average duration of around 1 hour and an attendance rate of around **90%**.

Objectives

It is the Committee's duty to ensure that the Directors' remuneration policies are developed with no conflicts of interest and in compliance with the provisions of the Corporate Governance Code. To this extent the Committee has consultative and advisory functions. The power to determine the remuneration of Directors holding special office remains, in any case, with the Board of Directors, after consultation with the Board of Statutory Auditors in compliance with Article 2389, paragraph 3 of the Italian Civil Code, which verifies the consistency of the proposals with the Remuneration Policy adopted by the Company.

Functions

By invitation of the Chairman, the members of the Internal Audit and Risk Committee and/or other members of the Board of Directors, or the Chairman of the Board of Statutory Auditors (who may designate another Auditor to participate in his place), or other Auditors, or other corporate bodies' members may participate in the meetings. The same goes for others whose presence may be helpful for the Committee's functions. The establishment of this Committee guarantees broad transparency and information on remuneration and on the methods used to establish remuneration.
No Director takes part in Committee meetings in which proposals intended for the Board are formulated on matters concerning his/her remuneration, unless the proposals which regard general Committee members as established within the Board.
In particular, the Committee:

- periodically assesses the adequacy, the overall consistency and the concrete application of the general policy adopted for the remuneration of the Directors and of senior executives with strategic responsibilities;

- submits proposals and delivers opinions to the Board of Directors concerning the remuneration of the executive Directors and of the other Directors holding special office, as well as concerning the setting of performance targets linked to the variable component of the overall remuneration by monitoring the application of decisions adopted by the Board, and verifying, in particular, the actual achievement of the performance objectives;
- develops, submits to the Board of Directors, and monitors the application of incentive schemes (including any shareholders' plans) directed to the senior executives. These schemes are intended as tools for attracting, retaining, and motivating professionals with suitable experience and technical skills, by developing their corporate loyalty and ensuring their constant focus on value creation over time.

The Committee, for performing the above functions, is supported by independent external consultants of leading importance at international level.
The information on the activities carried out annually by the Committee are included in the Report on Corporate Governance and Ownership Structures, published by the Company together with the Annual Financial Report pursuant to Article 154-ter of the Consolidated Law on Finance and available on the Company's website (Investor Relations - Corporate Governance section). We should note that the activities of the Committee were developed within a complex and ongoing process, aimed at defining the new Policy and the related compensation tools, as well as the preparation of the Report.

THE CYCLE OF ACTIVITIES OF THE REMUNERATION COMMITTEE

The Board of Directors of Terna S.p.A. currently in office consists of nine Directors: Catia Bastioli (Chairwoman), Matteo Del Fante (CEO and General Manager), Cesare Calari, Carlo Cerami, Fabio Corsico, Luca Dal Fabbro, Yunpeng He, Gabriella Porcelli, Stefano Saglia. For a detailed description of the functions of the Board of Directors, please refer to the Report on Corporate Governance and Ownership Structures. The roles of the Board under the By-laws – solely with regard to the topics of interest of this Report – are:

- determining the remuneration of Directors holding special office, after consultation with the Board of Statutory Auditors. This remuneration is defined in line with the decisions of the Shareholders' Meeting that can determine an overall amount for the remuneration of all Directors, including those with special duties;
- defining targets and approving the business results for the performance plans to which the calculation of the Directors' variable remuneration is linked;
- approving the general criteria for the remuneration of senior executives with strategic responsibilities;
- assessing the vote regarding the Remuneration Report.

In addition, the Board may delegate its powers to an Executive Committee composed of some of its members or to one or more of its members, including the Chairperson, determining the content, limits and procedures for fulfilling the delegated powers in accordance with Article 2381 of the Italian Civil Code and fixing their remuneration.

Shareholders' Meeting

The roles of the Shareholders' Meeting under the By-laws – solely with regard to the topics of interest of this report – are:

- appointing and dismissing the Directors, appointing the Statutory Auditors and the Chairman of the Board of Statutory Auditors;
- determining the remuneration of the Directors and Statutory Auditors;
- approving the Incentive Plans based on financial instruments or on performance targets linked to the performance of the Company's stock;
- expressing its opinion on the Remuneration Report itself.

Action of independent experts

Terna decided to be assisted by the consultancy firm Willis Towers Watson, whose responsibilities include a contribution regarding the analyses performed on remuneration and their benchmarking with market standards, as well as the third-party and independent evaluation for the definition of incentive plans and the remuneration policy.

Policy definition and approval

1. The Committee submits the Policy to the Board of Directors for approval.
   The Committee may access company information and departments useful for carrying out its duties, involve the Human Resources and Organisation Department, and may also use independent experts in the field within the limits approved by the Board of Directors and set out in the Corporate Governance Code.
2. The Board of Directors defines and adopts the Policy in its forms and internal regulatory sources. Specifically, the Board adopts the contents regarding the remuneration policy for members of the administration bodies and long-term incentive plans. Moreover, with regard to determining the remuneration of Directors holding special office, the Board takes into consideration the opinion of the Board of Statutory Auditors.
3. The Board of Directors, having examined and approved the Policy, submits it to the Shareholders' Meeting for an advisory vote.[3]

The Terna Remuneration Policy

Content and goals

The Policy described in the present Report focuses exclusively on the remuneration of the members of the administration bodies, the General Manager, and the senior executives with strategic responsibilities. The Policy is aimed at:

- attracting, retaining and motivating resources endowed with the professional skills required to successfully manage the Company;
- facilitating the alignment of interests of its resources with the most important objective of creating value for the shareholders and achieving pre-established performance targets, through the use of variable short and long-term components.

(3) It is worth remembering that the Procedure for Related-Party Transactions, adopted by the Board of Directors on November 12, 2010, does not include shareholders' resolutions pursuant to Article 2389, paragraph one of the Civil Code, regarding remuneration of Board members and of the Executive Committee, resolutions on the remuneration for Directors holding special office falling within the total amount previously determined by the Shareholders' Meeting pursuant to Article 2389, paragraph three of the Civil Code and resolutions pursuant to Article 2402 of the Civil Code regarding compensation due to members of the Board of Statutory Auditors. Furthermore, the following resolutions are excluded from the same Procedure for Related-Party Transactions:
1) those concerning remuneration plans based on financial instruments approved by Terna's Shareholders' Meeting pursuant to Article 114-*bis* of the Consolidated Law on Finance, and related executive operations;
2) those concerning the remuneration for Directors holding special office and for senior executives with strategic responsibilities if a Remuneration Policy is adopted based on CONSOB regulations on the matter.

Guidelines

In developing the Policy, the Board took into consideration the principles and criteria contained in the Corporate Governance Code and in particular that the CEO and GM is the addressee of a Policy in which a significant part of the remuneration is linked to the achievement of specific performance targets, also if non-economic targets, (e.g. indicators of Corporate Social Responsibility). Similar principles also inspired the Policy for other Senior Executives with Strategic Responsibilities.

Implementation

In implementing the above principles we can note that:

- the remuneration of Directors not holding special office is linked to participation in the Board Committees, with different fees for the Chairperson compared to the members of each Committee;
- the remuneration of the Chairperson of the Board of Directors consists of a fixed amount in line with the role held;
- the remuneration of the Chief Executive Officer and, if the position exists, of the General Manager[4], is adequately balanced between:
  - a fixed component, in line with the delegated powers and/or responsibilities attributed and sufficient to remunerate the services should the variable component not be paid due to failure to achieve the performance targets specified by the Board of Directors;
  - a variable component linked to the achievement of pre-established, measurable and well defined objectives in order to remunerate the performance achieved both in the short and long term, in line with the economic and financial targets of the Company's Strategic Plan;
  - possible severance payments for the termination of the role of Director, as well as for termination of employment as General Manager, were required.

Lastly, the Policy takes into account the nature and risk level compatible with Terna's aforementioned strategic objectives, as defined by the Board of Directors in its Meeting on 15 March 2017.

The current Policy is substantially in line with last year's Policy, with the instructions provided by the Corporate Governance Code[5], and with the requests that emerged during the Shareholders' Meeting of 30 May 2016.

Remuneration of members of the BoD

In this section the main characteristics of the Remuneration Policy are indicated for the following groups of individuals identified by the internal codes:

- not holding special office;
- holding special office.

As of the date of this Report:

(4) Other Senior Executives with Strategic Responsibilities will see the implementation of a similar policy to the one provided for the General Manager role.
(5) For details please see the contents of the "Analytical Index pursuant to Application Criterion 6.C.1 of the Corporate Governance Code".

- the following are Directors not holding special office[6]:
  - Cesare Calari (Chairman of the Audit, Risks and Corporate Governance Committee);
  - Carlo Cerami (Chairman of the Remuneration Committee);
  - Fabio Corsico;
  - Luca Dal Fabbro (Chairman of the Appointments Committee);
  - Yunpeng He;
  - Gabriella Porcelli;
  - Stefano Saglia (Chairman of the Related-Party Transactions Committee);
- the following are Directors holding special office:
  - Catia Bastioli (Chairwoman of the Board of Directors);
  - Matteo Del Fante (Chief Executive Officer and General Manager).

Remuneration of Directors not holding special office

Shareholders' Meeting established remuneration

The annual remuneration of the Directors not holding special office is composed solely by the fixed component, considered sufficient to attract, retain and motivate directors endowed with the professional qualities required to successfully manage the Company. This component is linked to the commitment required for each of them. For the 2014–2016 mandate, this remuneration, as determined by the Shareholders' Meeting of 27 May 2014, based on the proposals made by the shareholders, is € 35,000 per year.

No variable component tied to the economic results achieved by the Company and the Group is contemplated. The Directors not holding special office do not participate in the incentive plan and there is no distinction in terms of remuneration between independent and non-independent Directors.
These Directors are also entitled to reimbursement for expenses incurred while carrying out their duties in addition to coverage for civil liability towards third parties; they have the right, finally, to an insurance policy for occupational accidents related to the position.

Fee for participating in Board Committees

The additional fees for members of the Committees set up within the Board of Directors are in any case resolved by the Board of Directors, after consulting the Board of Statutory Auditors.
For the 2014–2016 mandate, the annual remuneration of the Directors participating in the Board Committees was determined by the Board of Directors, after consultation with the Board of Statutory Auditors, which was elected by the Shareholders' Meeting of 27 May 2014 and is made up as follows:

- Chairman of the Audit, Risks and Corporate Governance Committee: € 60,000 per year;
- Chairmen of the Remuneration Committee, the Appointments Committee, and the Related-Party Transactions Committee: € 50,000 per year;
- members of the Committees: € 40,000 per year.

(6) The evaluation regarding the existence of the independence requirements of each of the non-executive members is performed by the Board of Directors, taking into account the information provided by the individuals involved, during the appointment and at least annually according to what is represented in the Annual Report on Corporate Governance and Ownership Structures approved by the Board of Directors and published on the Company's website.

Remuneration of Directors holding special office

A. CHAIRPERSON OF THE BOARD OF DIRECTORS

For the 2014–2016 mandate, the total remuneration for the position of Chairperson of the Board of Directors consists exclusively of the fixed component, structured as follows:

- annual amount approved by the Shareholders' Meeting on 27 May 2014, of € 50,000[7];
- a fixed annual amount of € 188,000 approved by the Board of Directors on 25 June 2014, as proposed by the Remuneration Committee after consultation with the Board of Statutory Auditors.

B. CEO AND GENERAL MANAGER

Fixed elements of remuneration

CHIEF EXECUTIVE OFFICER

For the 2014–2016 mandate, the total fixed remuneration for the position of Chief Executive Officer is made up of:

- an annual amount approved by the Shareholders' Meeting on 27 May 2014, of **€ 35,000**;
- an annual amount approved by the Board of Directors on 25 June 2014, following proposal of the Remuneration Committee after consultation with the Board of Statutory Auditors, of **€ 200,000**.

GENERAL MANAGER

The total fixed compensation foreseen for the General Manager includes:

- a gross annual fixed component (Gross Annual Salary, RAL);
- benefits recognized by the National Collective Bargaining Agreement (CCNL)[8] and company practices.

The Gross Annual Remuneration approved by the Board of Directors at its meeting on 25 June 2014 is **€ 850,000.**

Overall, therefore, the CEO/GM, for the current mandate, is paid an annual gross fixed remuneration of ***€ 1,085,000.***

Short-term variable component (MBO)

The MBO Plan allows for a yearly evaluation of both Terna and the Beneficiary's performance, and directs management actions towards strategic objectives in line with business priorities.
The Board of Directors, following the proposal of the Committee, determines the MBO objectives for Directors holding special office; these objectives are linked to the annual performance of the Group.

(7) Under the terms of Article 24.1 of the Bylaws.
(8) Supplemental social security and medical insurance (pursuant to the National Collective Employment Contract for senior executives of companies producing goods and services of 30.12.2014).

CHIEF EXECUTIVE OFFICER

The variable short-term remuneration foreseen for the Chief Executive Officer, for the powers delegated to him, is determined by the Board of Directors, following the proposal of the Remuneration Committee and consultation with the Board of Statutory Auditors.
Access to the incentive is subordinated to achievement of pre-defined corporate objectives of particular significance for the Company, proposed ex-ante by the Committee, approved by the Board of Directors and measured ex-post by the same Committee according to an on/off dichotomous scale.
The table below shows the targets defined for the year 2017:

2017 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	SCORE CURVE
Terna Group 2017 EBITDA	**ON/OFF** *(vs Budget)*
Generational Turnover Project	**ON/OFF**

The second of the two objectives given above is linked to the corporate project that provides for the incorporation of young people into the company upon older staff leaving through the application of more appropriate and cost-effective tools compared to the different alternatives permitted by applicable law. The Plan will involve staff that will accrue pension requirements by 31 December 2021 and for whom the adoption of the measures provided for by Art. 4 of Italian Law 92/2012 (the "Fornero Law") could also be evaluated.

The amount of the annual incentive, approved by the Board of Directors, is equal to **€ 200,000**; it is an **on/off** payment. Therefore, this amount will be paid only on achievement of **both** the targets, while failure to achieve even only one of the two targets, will not generate any payment.

GENERAL MANAGER

Payment of the MBO Incentive System to the General Manager is subordinated to verifying the achievement of the performance targets assigned each year.

For the year 2017, the targets assigned to the General Manager are shown in the table below, with the related score curves.

2017 MBO OBJECTIVES - GENERAL MANAGER

Objectives	Weight	Score curve	
Investments *(Total Group Capex)*	**40%**	**Delta vs budget**	**Score**
		-4%	80%
		-3% to +2%	150%
		+3%	80%
		For negative delta greater than 5% and for positive delta greater than 4%, the score is zero. For intermediate figures linear interpolation.	
Free Cash Flow	**35%**	**Delta vs budget**	**Score**
		-3%	80%
		Budget	100%
		+3%	130%
		+5%	150%
		For negative delta greater than 3% the score is zero. For intermediate figures linear interpolation.	
Quality of Service *(Energy Not Supplied, RENS)*	**10%**	**MWh**	**Score**
		Figure equal to the lowest result for 2008-2016	0%
		Target 2017 AEEGSI +5%	100%
		Target 2017 AEEGSI	150%
		For intermediate figures linear interpolation	
R&D Projects / Sustainability *1. Information system that warns about the formation of sleeves of ice on overhead power lines* *2. On-line monitoring of electrical substation equipment and machinery*	**15%**	For each of the two projects, the score curve (0%, 80%, 100%, 130%, 150%) is linked to the achievement of predetermined milestones; <u>the score associated with the overall target is equal to the arithmetic average of the scores of the two projects.</u>	

The first of the objectives given above measures compliance with the Economic Investments' Plan provided for 2017 for all Group activities ("*Total Group Capex*").
"Free Cash Flow" represents the (monetary) cash flow generated by operations, before servicing the debt, dividends and any extraordinary operations and including taxes.
The "Quality of Service" provides indications on the operating performance of the company through the measurement, in MWh, of the quantity of Energy Not Supplied (RENS); therefore, the lower this figure is, the higher the target score will be, up to the maximum score (150%) which corresponds to the target set, for 2017, by the Regulatory Authority for Electricity, Gas and Water.
The target related to "*R&D/Sustainability Projects*", is made up of the following two projects:

1. *"Information system that warns about the formation of sleeves of ice on overhead power lines"*, which includes the creation of a information system, called WOLF (Wet-snow Overload aLert and Forecasting) that can predict wet snow overloading, across Italy, on overhead power lines and the minimum current needed to de-ice, as well as issue warnings in various ways.

2. "*On-line monitoring of electrical substation equipment and machinery*", which includes the implementation of an innovative on-line diagnostic system for equipment and machinery at the most risk within electrical substations, in order to optimise the maintenance strategy.

A score curve with threshold values (0%, 80%, 100%, 130%, 150%) linked to the achievement (or otherwise) of pre-set project ***milestones*** is associated to each of these two projects; the score of the composite indicator is calculated as the arithmetic average of the two scores.
The amount of the incentive actually disbursed varies according to the level of achievement of the targets assigned to the single objectives (and therefore related to the scores achieved by each KPI):

- if the average score of the single targets is 80%, the amount is **€ 240,000** gross (28.2% of the GM's fixed remuneration);
- if the average score of the single targets is 100%, the amount is **€ 300,000** gross (35.3% of the GM's fixed remuneration);
- if the average score of the single targets is 130%, the amount is **€ 390,000** gross (45.9% of the GM's fixed remuneration);
- if the average score of the single targets is 150% (max), the amount is **€ 450,000** gross (52.9% of the GM's fixed remuneration).

If the average of the scores of the single targets is less than 80%, nothing is due.

Overall, therefore, the CEO/GM, for the current mandate, is paid a short-term variable remuneration which, at the target, is **€ 500,000** *gross per year and at the maximum level is* **€ 650,000** *gross per year.*

Long-term variable component (LTI, Long Term Incentive)

Also in order to contribute to the achievement of the long-term interests, the Company adopts a long-term incentive system aimed at:

- ensuring the alignment between the value creation for shareholders and for the management, by introducing an economic incentive into the remuneration structure of the Beneficiaries linked to the achievement of challenging company performance targets, including non-economic targets;
- creating loyalty among the Beneficiaries over the Plan period by making the economic incentive set out in the Plan linked to the employment relationship with the Group continuing for at least three years.

The "*2016–2018 Monetary Long-Term Incentive Plan*" (hereinafter the "2016–2018 Plan" or, in brief, the "Plan") is intended for the Group managers who perform significant functions for the achievement of strategic results, in addition to the General Manager who also holds the position of Chief Executive Officer.

Access to the incentive is subject to verification of the achievement of the specific KPIs, in line with the Group's Strategy.

The KPIs related to the 2016–2018 LTI Plan are presented in the table below, with the relevant score curves:

LTI PLAN 2016 - 2018			
Objectives	Scope	Score curve	
Cumulated gross profit 2016-2018	**50%**	**Delta vs Strategic Plan target**	**Score**
		-2%	80%
		Target	100%
		+3%	130%
		+5%	150%
		For negative delta greater than 2% the score is zero *(for intermediate figures linear interpolation is carried out)*	
Total Shareholder Return (TSR) 2016-2018[a] Positioning of Terna in the reference peer group [Terna, Snam, Red Electrica, Enagas, National Grid, Severn Trent, United Utilities][b]	**40%**	**Positioning**	**Score**
		7th or 6th place	0%
		5th place	80%
		4th place	100%
		3th place[c]	130%
		1st or 2nd place[c]	150%
Dow Jones Sustainability Index (DJSI) The average of the scores relative to Terna's annual positioning in the years 2016-2017-2018.	**10%**	**Positioning**	**Score**
		Non-inclusion in DJSI	0%
		Inclusion in DJSI	80%
		Positioning in the 2nd decile of the index[d]	100%
		Positioning in the 1st decile of the index[d]	130%
		Positioning in the 1st decile of the index for all years of the Plan and inclusion into the "Gold Class"[d] for at least one of the three years	150%

(a) The TSR of Terna and of the peers is calculated over a time period of three years, using the average of the closing values of the stock in 2015 and the same average for 2018. Data source for TSR: Bloomberg.
(b) The companies in the peer group are key European regulated utilities listed on the stock exchange, which therefore have equivalent or similar business models to Terna.Stocks that are subject to extraordinary operations that will cause their delisting or a significant reduction in the floating capital, will be replaced (up to a max of two) by the following stocks, listed in order: Elia, REN - Redes Energéticas Nacionais.
(c) If, although it comes in the 1st, 2nd or 3rd place, the TSR of Terna is **negative** in the period of reference, overperformance will not be recognised: the associated score will therefore be **100%** ("negative TSR threshold").
(d) In the year 2016, 58 Electric Utilities were assessed by the company RobecoSAM for inclusion in the DJSI World; based on these figures, positioning in the **1st or 2nd decile** means being included among the top 6 or among the top 12 Companies in the world, in the sector, for sustainability performance. Inclusion in the "Gold Class" identified by RobecoSAM in its Sustainability Yearbook requires positioning in **1st place** in the sector ("Industry Leader") or obtaining a score that is less than **1%** away from that of the Industry Leader.

The overall performance is measured as the weighted average of the scores achieved for each of the three Plan targets, according to the respective performance curves presented above. For the incentive system to become active and, therefore, for the right to payment of a bonus to be earned, an **overall** performance of at least 80% has to be achieved.
For what concerns the target related to the positioning of the Terna TSR in the peer group, a cap on the score – of 100% – is foreseen if the result of the Company is negative, even though it is placed in the first threepositions of the ranking (the so-called "negative TSR threshold").

In relation to the aforesaid purposes of the Plan, the right of the Beneficiaries to receive the bonus is linked to maintaining the employment relationship within the Terna Group until the bonus is paid; the only cases in which the right to receive the bonus, if earned, remains also in case of termination of the employment relationship are due to the following: retirement, permanent disability or death.
Please note that, for what concerns the General Manager, as the executive employment contract is intrinsically linked to the administrative role as Chief Executive Officer (so that termination of one determines the inevitable termination of the other), it is envisaged, in the case of non-renewal of the mandate as CEO, that at the natural expiry of the vesting period of the Plan and after verification of achievement of the targets, an Incentive will be paid, pro rata temporis, set at 2/3 of the total Incentive[9].

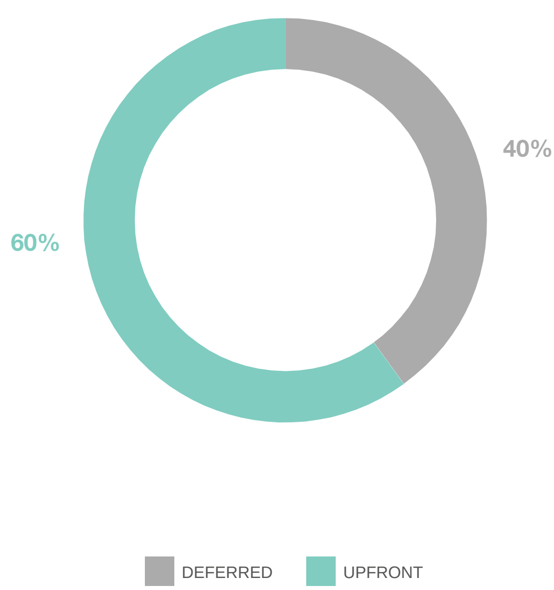
The variable remuneration of the General Manager linked to the LTI Plan is established with reference to:

- an incentive level ("entry level") of **€ 300,000** gross for every year of the Plan (corresponding to 35.3% of the Gross Annual Remuneration of the GM), in case of achievement of an overall performance of **80%**;
- a target incentive level, of **€ 375,00**0 gross for every year of the Plan (corresponding to 44.1% of the Gross Annual Remuneration of the GM), in case of achievement of an overall performance of **100%**;
- a maximum incentive level, of **€ 550,000** gross for every year of the Plan (corresponding to 64.7% of the Gross Annual Remuneration of the GM), in case of achievement of the maximum performance level of **150%**.

For intermediate performance levels linear interpolation is carried out.

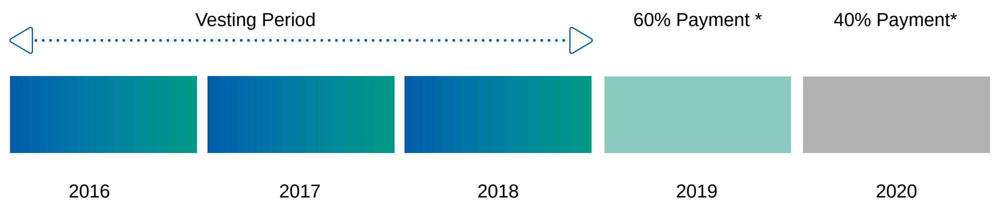
Deferment in payment of the Long Term Incentive

It is established that payment of 40% of the total long term incentive is ***deferred*** by one year with respect to that in which achievement of the performance targets is verified.



(9) The current mandate, in fact, will expire in 2017, while the expiry of the Plan is set at the date of approval of the 2018 Draft Financial Statements..

The image below shows the timeline of the 2016–2018 LTI Plan:



* Subject to verification of performance-target achievement

"CLAWBACK" AND "MALUS" CLAUSES

The application of clawback clauses, providing for the repayment of sums already paid, is foreseen in the variable portion of the remuneration paid, as well as "malus" clauses, providing for the right, for the Company, to withhold any part of the incentive subject to deferment, if it is proved that the achievement of the objectives was due to fraudulent conduct or gross negligence by the Beneficiary or performed in violation of the reference rules (company, legal and regulatory, etc.), and without which the relevant results would not have been achieved. The application of these mechanisms is nevertheless without prejudice to any other action permitted by the law to protect the interests of the Company.

Benefits

Similarly to what happens with the senior executives of the Group, in line with the Policy implemented in 2016 and in compliance with the national bargaining provisions, the benefits package for the General Manager is defined in accordance with the provisions of the applicable national collective employment contract as well as with the company policies applicable to all senior executives (e.g. allocation of cars for company/private use, supplementary health insurance, etc.).

Comparison with the market

The Remuneration Committee was advised by the consultancy firm Willis Towers Watson, which carried out a comparative assessment on the incentive schemes within a panel of 12 Italian and European companies comparable with Terna in terms of (equivalent or similar) business model or capitalization.

Panel of companies for the remuneration benchmark

Atlantia	Severn Trent
Enel	United Utilites
Snam	Leonardo (FNM)
Enagas	Prysmian
National Grid	Saipem
Red Electrica	Telecom Italia

Panel of companies for the remuneration benchmark

The study showed that, for the Terna Group, the total remuneration (Total Direct Compensation = fixed component + MBO + LTI) of the CEO/GM is below the median value of the sample identified.

Severance indemnity in case of resignation, dismissal or termination of employment

The Chief Executive Officer, consistent with market practices, and in order to protect the interests of the Company by preventing possible disputes, is entitled to termination benefits.
The General Manager, on termination of employment, is entitled to payment of an indemnity in line with the international best practices and with the provisions set out in the National Collective Employment Contract for senior executives of companies producing goods and services.
The sum of the Chief Executive Officer's termination benefits and the General Manager's severance payments is equal to 24 months of the total compensation paid for the two positions.
The indemnity, however, is not payable if the termination of the employment relationship occurs for just cause. It should also be noted that, prudentially, since the appropriate requirements were satisfied, these sums were accrued in the 2014 Financial Statements.

The Company does not pay any indemnity or any extraordinary compensation linked to termination of the term to other Directors holding special office, who have been given specific assignments and without an employment contract with the Company, with the exception of the Chairperson, who is entitled to a termination benefits equal to 1/12 of the total annual remuneration for each year in which he/she has held this position.

Non-competition agreements

Currently Terna does not have non-competition agreements in place that provide Directors, the General Manager and Senior Executives with Strategic Responsibilities a compensation of a fixed amount or an amount referable to the Gross Annual Salary in relation to the duration and scope of the obligation deriving from the agreement itself. However, Terna reserves the right to assess, at the appropriate time, the need to provide for specific provisions in this regard.

Senior executives with strategic responsibilities

Senior Executives with Strategic Responsibilities (SESR) refers to persons who, directly or indirectly, have the power and responsibility for the planning, direction and control of the Company's operations.
On 1 January 2017 the Chief Executive Officer selected the Senior Executives with Strategic Responsibilities, consisting of the holders of the following organisational roles:

- *Manager of the Corporate Affairs Division*
- *Manager of the Strategy and Development Division*
- *Manager of the Administration, Finance and Audit Department*
- *Chief Executive Officer of Terna Rete Italia S.p.A.*

The list of Senior Executives with Strategic Responsibilities has been drafted by interpreting Article 152-sexies, paragraph 1, point c) of CONSOB Regulation no. 11971 dated 14 May 1999 and subsequent amendments extensively, in order to ensure the utmost transparency towards shareholders regarding operations performed by company senior executives with strategic responsibilities, albeit in their specific areas of competence.
When developing the Remuneration Policy for Senior Executives with Strategic Responsibilities it was taken into consideration that these were the recipients of a Policy in which a part of the remuneration is linked to the achievement of specific performance targets, also if non-economic targets, indicted and determined in advance and in line with the guidelines contained in the general remuneration policy defined by the Board of Directors (Principle 6. P.2).
Criteria 6.C.1 and 6.C.2 apply, as they are compatible, also when determining the remuneration of Senior Executives with Strategic Responsibilities.
The remuneration of Senior Executives with Strategic Responsibilities consists of the following elements:

- a gross annual fixed component (RAL);
- an annual variable component based on the achievement of predetermined business targets (MBO);
- a long-term variable component based on the achievement of predetermined targets (LTI Plan);
- benefits recognised by the applicable National Collective Employment Contract and company practices.

In particular:

- the fixed component is defined in relation to the role held and the relative responsibilities;
- the annual incentive (MBO) represents, at target level, a percentage of **40%** of the fixed component;
- the (annual) incentive of the long-term component (LTI), at target level, is equal to a predetermined amount, between **40%** and **60%** of the fixed RAL component;
- benefits and severance indemnities are defined in line with that which is provided for by the National Collective Employment Contract and company policies and practices, as well as that which has already been accrued at the appointment date.

Short-term variable component (MBO)

The MBO Plan allows for a yearly evaluation of both Terna and the Beneficiary's performance, and directs management actions towards strategic objectives in line with business priorities.
The MBO targets of Senior Executives with Strategic Responsibilities are defined by the Chief Executive Officer. These targets are linked to the Group's annual performance.
Payment of the MBO incentive to Senior Executives with Strategic Responsibilities is subject to the verification of the Remuneration Committee, with the support of the Human Resources and Organisation Department, of the achievement of annually assigned performance targets.
The amount of the incentive actually disbursed varies according to the level of achievement of the targets assigned to the single objectives (and therefore related to the scores achieved by each KPI) which are specific to each role:

- if the weighted average of the single targets is 80% (min), the amount averages **32%** of the fixed remuneration;
- if the weighted average of the single targets is 100% (target), the amount averages **40%** of the fixed remuneration;
- if the weighted average of the single targets is 150% (max), the amount is averages **60%** of the fixed remuneration.

If the weighted average of the scores of the single targets is less than 80%, nothing is due.

Long-term variable component (LTI)

Group Senior Executives with Strategic Responsibilities are recipients of the Terna Group's 2016–2018 LTI Plan, the characteristics of which have been described above.

The variable remuneration for SESR linked to the LTI Plan is established with reference to:

- an incentive level of a percentage no less than **32%** of the Gross Annual Remuneration, for each year of the Plan, in the instance that an overall performance of 80% (entry level) is achieved;
- an incentive level of a percentage no less than **40%** of the Gross Annual Remuneration, for each year of the Plan, in the instance that an overall performance of 100% (target level) is achieved;
- an incentive level of a percentage no less than **90%** of the Gross Annual Remuneration, for each year of the Plan, in the instance that an overall performance of 150% (max level) is achieved.

For intermediate performance levels linear interpolation is carried out.

Benefits

Similarly to what happens with other senior executives of the Group, in line with the Policy implemented in 2016 and in compliance with the national bargaining provisions, the benefits package for the Senior Executives with Strategic Responsibilities is defined in accordance with the provisions of the applicable national collective employment contract, as well as with the company policies applicable to all senior executives (e.g. allocation of cars for company/private use, supplementary health insurance, etc.).

Subject Analytical Index (Consob Resolution no. 18049, Section I)

In order to facilitate the reading of this report, a subject analytical index is presented below, indicating references to the paragraphs that contain information on individual items of the contents of CONSOB Resolution no. 18049, Section I.

SUBJECT ANALYTICAL INDEX

CONSOB Resolution	Required information	References
A	Bodies or persons involved in the preparation and approval of the remuneration policy, specifying their respective roles, as well as the bodies or individuals responsible for the proper implementation of this policy;	pages 18 to 22
B	possible scope of action of a remuneration committee or other relevant committee, describing its composition (with distinction between non-executive and independent directors), its competences and operating methods;	pages 18 to 20
C	the names of any independent experts that contributed to the formulation of the remuneration policy;	pages 18, 21
D	the objectives pursued through the remuneration policy, its underlying principles, and any changes to the remuneration policy with respect to the previous financial year;	page 22
E	description of the policies regarding fixed and variable components of remuneration, particularly with regard to the relative weightings within the overall remuneration, distinguishing between short and long term variable components;	pages 23 to 31
F	the policy adopted with respect to non-monetary benefits;	page 34
G	a description of performance objectives, according to which variable components of the remuneration are assigned, distinguishing between short and long term variable components, and information on the connection between changes in results and changes in remuneration;	pages 25 to 31
H	the criteria used to evaluate performance objectives forming the basis of the allocation of shares, options, other financial instruments or other variable components of remuneration;	pages 25 to 31
I	information intended to demonstrate that the remuneration policy is consistent with pursuing the company's long-term interests and with its risk management policy, where formalised;	pages 28 to 31

CONSOB Resolution		Required information	References
J	▷	the vesting period, any deferred payment systems, with indications of the periods of deferment and the criteria used to determine these periods and ex-post correction mechanisms, if applicable;	pages 30, 31
K	▷	information on the presence of clauses for the retention of financial instruments in the portfolio after acquisition, with an indication of the retention period and the criteria used to determine these periods;	Not applicable
L	▷	policy on compensation envisaged in case of termination of office or termination of the employment contract, specifying the circumstances determining the right to the compensation and any link between these payments and the company's performance;	page 32
N	▷	information on any insurance, social security or pension plans, other than the obligatory schemes;	page 31
N (i)	▷	the remuneration policy possibly implemented with reference to the independent directors;	The Company does not provide for specific policies for independent
N (ii)	▷	the remuneration policy possibly implemented with reference to participation in committees;	page 24
N (iii)	▷	the remuneration policy possibly implemented with reference to the performance of particular tasks (chairman, vice chairman, etc.);	pages 24, 32
O	▷	information regarding the use of remuneration policies of other reference companies and, if used, the criteria chosen for the selection of these companies.	In developing its policy, the company did not take the policies of other companies as a reference. However a benchmark was made with a "peer group" (pages 31, 32)

Analytical Index Pursuant to Applicative Criteria 6.C.1 of the Corporate Governance Code (July 2015 Edition)

In order to make the reading of this Report easier, the following is an analytical index that lists the references to the sections containing information with respect to the individual points of the Applicative Criteria 6.C.1

ANALYTICAL INDEX PURSUANT TO APPLICATIVE CRITERION 6.C.1 OF THE CORPORATE GOVERNANCE CODE

	Applicative Criteria 6.C.1	References
a)	fixed and variable components are adequately balanced depending on the Issuer's strategic objectives and risk management policy, also taking into account the business sector in which it operates and the nature of business it actually performs;	pages 13, 23
b)	maximum limits for the variable components shall be established;	pages 25, 28, 30
c)	the fixed component shall be adequate to remunerate the services of the Director, should the variable component not be paid because of failure to achieve the performance objectives specified by the Board of Directors;	pages 23, 25
d)	the performance objectives - i.e. the economic results and any other specific objectives linked to the payment of variable components (including the objectives defined for the share-based compensation plans) - are predetermined, measurable and linked to the creation of value for the shareholders in the long term;	pages 25 to 29
e)	the payment of a significant portion of the variable component of remuneration shall be deferred for an appropriate period of time with respect to the moment of its accrual; the amount of that portion and the period of deferral shall be consistent with the characteristics of the business carried out and the associated risk profiles;	page 30
f)	contractual mechanisms are foreseen to allow the company to request the return, in whole or in part, of the variable components of remuneration paid (or to withhold sums that have been deferred), that were calculated based on data that later turned out to be clearly wrong;	page 31
g)	any severance payment, established on the termination of the directorship, is defined in such a way that its total amount does not exceed a certain amount or a certain number of years of remuneration. This indemnity is not paid if the termination of the relationship is due to the achievement of objectively inadequate results.	page 32

SECTION II
IMPLEMENTATION OF THE 2016 REMUNERATION POLICIES

Foreword

This section is subdivided into two parts and illustrates by names, through tables attached in the second part, the compensations of members of administration and audit bodies, as well as of the General Manager and the information concerning Company shares held by them. The implementation of the Policy, as verified by the Remuneration Committee during its regular assessment as foreseen by the Corporate Governance Code, remained in line with the general principles indicated in the resolutions adopted by the Board of Directors. See Section I for the detailed description of each component part of the remuneration, including treatments foreseen in case of termination.
The compensation items listed are consistent with the Policy established in 2016 by the Board of Directors and submitted for the advisory and non-binding vote of the Shareholders' Meeting of 30 May 2016, pursuant to Art. 123-*ter*, paragraph 6, of the Consolidated Law on Finance, which was favourable.

Part One

Fixed amounts

In the year 2016:

- the non-executive Directors were paid the fixed amounts established by the Shareholders' Meeting of 27 May 2014 (€ 35,000 per year for each Director);
- the Chairwoman was paid the fixed amount established by the Shareholders' Meeting on 27 May 2014 (€ 50,000 per year) and the fixed amount established by the Board of Directors on 25 June 2014 (€ 188,000 per year). Therefore the overall remuneration package for the Chairwoman, in terms of fixed remuneration, amounted to € 238,000;
- the Chief Executive Officer and General Manager was paid:
  - the fixed amount as Director established by the Shareholders' Meeting on 27 May 2014 (€ 35,000 per year);
  - the fixed amount established by the Board of Directors on 25 June 2014 for the assigned powers and duties (€ 200,000 per year);
  - the fixed component of remuneration as General Manager (€ 850,000 per year).

Therefore, the overall remuneration package for the CEO and General Manager in office, in terms of fixed remuneration, amounted to € 1,085,000.

The amounts related to the fixed compensation are specified in the relevant column of Table 1.

Variable amounts

1.1 Short-term variable incentive

In 2016 the Chief Executive Officer was paid the short-term variable remuneration (MBO), based on the performance achieved in reaching the targets foreseen for financial year 2015.
More specifically, the annual variable amount (€ 200,000 gross) was paid; please note in this regard, that the MBO bonus established in favour of the Chief Executive Officer is an on/off bonus. The payment of this bonus was dependent on reaching the gate condition expressed by a total score for the Company BSC for the year 2015 of over 100 (the score achieved by the BSC was equal to 138, as detailed below) and the achievement of the pre-determined corporate objectives of particular significance to the Company, summarised in the table below:

2015 MBO OBJECTIVES - CHIEF EXECUTIVE OFFICER

OBJECTIVES	SCORE CURVE
Net Income	**ON/OFF** (vs Budget)
Implementation of the Group's new organisational model	**ON/OFF**

The General Manager was paid the short-term annual variable amount (€ 450,000 gross). The payment of this bonus was linked to achieving a "gate" condition expressed by the EBITDA target (achieved) for 2015 envisaged in Terna's Strategic Plan and by achieving a Group BSC score above the (130) threshold for receiving the maximum incentive. The table below summarises, for each of the targets contained in the 2015 BSC, the relative weight for calculating the bonus, the final figure achieved and how this figure is placed with respect to the corresponding Strategic Plan target.

ACHIEVEMENT OF MBO TARGETS 2015

Objectives	Weight	Actual Data	Level of Achievement
Economic-Financial Perspective			
EBITDA	20%	**€ 1,539.2 mln**	↗
Net Income	20%	**€ 595.3 mln**	↗
Revenues from Non-Regulated Activities	10%	**€ 194.7 mln**	↗
Internal process perspective			
"Generational Turnover" Project	20%	ON	↗
Customer perspective			
Service quality (*Energy Not Supplied, RENS*)	10%	ON	↗
Innovation perspective			
Italy-France Interconnector	10%	*Milestones partially achieved*	↘
R&D Projects / Sustainability	10%	ON	↗
	100%	**Total score: 138**	

↗ Equal to or more than the max target (-> 150%)

⇨ In line with the Strategic Plan (or project) target

↘ Below the Strategic Plan (or project) target

The results achieved by Terna in financial year 2015 with reference to the targets contained in the BSC were assessed and approved by the Board of Directors in the meeting on 21 March 2016 - following the proposal of the Remuneration Committee - and determined a total score of 138 which, being above the threshold (130), made 150% of the incentive payable to the General Manager.

*Therefore, the total short-term variable remuneration for the CEO/GM was equal to **€ 650,000** gross.*

The amounts related to the variable compensation are specified in the relevant column of Table 1.

1.2 Long-term variable incentive

With reference to the 2014–2015 LTI Plan, during the meeting on 21 March 2016 the Board of Directors proceeded to verify that, for the two specific indicators (*1. Group cumulated gross profit, 2. Incentivized investments*), that the targets that enabled the maximum score of 150% to be reached had been achieved and that the "gate" condition, represented by the Group cumulative EBITDA target for the two years of the Plan, had also been met, and thus the maximum annual bonus of € 550,000 gross became payable to the General Manager for each of the two years of the Plan.
The total amount of **€ 1,100,000** gross was thus paid, as provided for in the Plan Regulations, entirely in financial year 2016.

The table below summarises, for each target on which the 2014–2015 LTI Plan is based, the final figure achieved and how this figure is placed with respect to the corresponding Strategic Plan target:

LTI PLAN 2014-2015

Objectives	Weight	Actual Data	Level of Achievement
Cumulative gross profit	50%	**€ 1,770 mln**	
Incentivised Investments	50%	**€ 1,674 mln**	

Exceeds the target

On target

Below the target

Fees for participating in Board Committees

For 2016:

- the Chairpersons of the Appointments Committee, the Remuneration Committee and the Coordinator in office of the Related-Party Transactions Committee, in addition to their fee as Directors (€ 35,000 per year), were accorded an annual remuneration of € 50,000;
- the Chairperson of the Audit, Risk and Corporate Governance Committee, in addition to the fee as Director (€ 35,000 per year), was accorded an annual remuneration of € 60,000;
- the members in office of all Committees, in addition to their fee as Directors (€ 35,000 per year), were accorded an annual remuneration of € 40,000.

The amounts paid to Directors and for participating in Committees are summarised in Table 1.

Severance indemnity in case of resignation, dismissal or termination of employment

During 2016, no indemnities were paid for resignation, dismissal or termination of the employment, as shown in the column “Severance indemnities for end of office or termination of employment” in Table 1.

Benefits

In line with the Policy, during 2016, the Chairwoman and the CEO, as General Manager, were granted benefits as listed in Table 1.

Part Two

Table 1 - Fees paid to members of administration and control bodies, General Managers and other senior executives with strategic responsibilities

Table 3B - Monetary incentive plans for directors, General Managers and other senior executives with strategic responsibilities

Scheme *7-ter* - Table 1 - Shareholdings held by directors, statutory auditors, General Managers and senior executives with strategic responsibilities

Table 1

FEES PAID TO MEMBERS OF ADMINISTRATION AND CONTROL BODIES, GENERAL MANAGERS AND

A	B	C	D	1	2
Name and surname	**Office**	**Period in which office was held**	**Expiration of office**	**Fixed amounts**	**Compensation for the participation in committees**
Catia Bastioli	Chairwoman of the Board of	01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				50,000.00 € (1)	
				188,000.00 € (2)	
(III) TOTAL				**238,000.00 €**	
Matteo Del Fante	CEO and General Manager	01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	
				200,000.00 € (5)	
				850,000.00 € (6)	
(III) TOTAL				**1,085,000.00 €**	
Cesare Calari		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	60,000.00 € (13)
(II) Remuneration from subsidiaries and associates					
(III) TOTAL				**35,000.00 €**	**60,000.00 €**
Carlo Cerami		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	50,000.00 € (11)
					40,000.00 € (14)
					40,000.00 € (24)
(II) Remuneration from subsidiaries and associates					
(III) TOTAL				**35,000.00 €**	**130,000.00 €**
Fabio Corsico		01/01/2016-31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	40,000.00 € (11)
(II) Remuneration from subsidiaries and associates					40,000.00 € (16)
(III) TOTAL				**35,000.00 €**	**80,000.00 €**
Luca Dal Fabbro		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	50,000.00 € (23)
(II) Remuneration from subsidiaries and associates					40,000.00 € (14)
(III) TOTAL				**35,000.00 €**	**90,000.00 €**

OTHER SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

3		4	5	6	7	8
Variable non-equity remuneration						
Bonuses and other incentives	Stake in profits	Non-monetary benefits	Other	Total	Fair Value of equity-based	Severance indemnities for end of office or termination of employment
				50,000.00 €		
				188,000.00 €		
				238,000.00 €		
				35,000.00 €		
200,000.00 €				400,000.00 €		
1,550,000.00 €		62,074.55 €		2,462,074.55 €		
1,750,000.00 €		**62,074.55 €**		**2,897,074.55 €**		
				95,000.00 €		
				95,000.00 €		
				85,000.00 €		
				40,000.00 €		
				40,000.00 €		
				165,000.00 €		
				75,000.00 €		
				40,000.00 €		
				115,000.00 €		
				85,000.00 €		
				40,000.00 €		
				125,000.00 €		

continued Table 1

FEES PAID TO MEMBERS OF ADMINISTRATION AND CONTROL BODIES, GENERAL MANAGERS AND

A	B	C	D	1	2
Name and surname	**Office**	**Period in which office was held**	**Expiration of office**	**Fixed amounts**	**Compensation for the participation in committees**
Gabriella Porcelli		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Compensi nella società che redige il bilancio				35,000.00 € (4)	40,000.00 € (11)
					40,000.00 € (16)
(III) TOTAL				**35,000.00 €**	**80,000.00 €**
Stefano Saglia		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	50,000.00 € (15)
					40,000.00 € (24)
(III) TOTAL				**35,000.00 €**	**90,000.00 €**
Yunpeng He		01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				35,000.00 € (4)	
(II) Remuneration from subsidiaries and associates					
(III) TOTAL				**35,000.00 €**	
Riccardo Schioppo	Standing Auditor	01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				55,000.00 € (9)	
(III) TOTAL				**55,000.00 €**	
Vincenzo Simone	Standing Auditor	01/01/2016 - 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				45,000.00 € (10)	
(III) TOTAL				**45,000.00 €**	
M. Alessandra Zunino de Pigner	Alternate Auditor	01/01/2016- 31/12/2016	Approval of 2016 Financial Statements		
(I) Remuneration in the company that draws up the Financial Statements				45,000.00 € (10)	
(III) TOTAL				**45,000.00 €**	

(1) Remuneration established by the Shareholders' Meeting in accordance with Art. 2389, paragraph 1 for the office of Chairman/Chairwoman of the BoD.
(2) Remuneration established by the Meeting of the BoD in accordance with Art. 2389, paragraph 3 for the office of Chairman/Chairwoman of the BoD.
(4) Remuneration established by the Shareholders' Meeting in accordance with Art. 2389, paragraph 1 for the office of Director.
(5) Remuneration established by the Meeting of the BoD in accordance with Art. 2389, paragraph 3 for the office of Chief Executive Officer.
(6) Fixed remuneration of the General Manager.
(9) Remuneration established by the Shareholders' Meeting in accordance with Art. 2389, paragraph 1 for the office of Chairman/Chairwoman of the Board of Statutory Auditors.
(10) Remuneration established by the Shareholders' Meeting in accordance with Art. 2389, paragraph 1 for the office of Auditor.
(11) Remuneration for the office of Chairman/Chairwoman of the Remuneration Committee.
(12) Remuneration as member of the Remuneration Committee.

OTHER SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

3		4	5	6	7	8
Variable non-equity remuneration						
Bonuses and other incentives	Stake in profits	Non-monetary benefits	Other	Total	Fair Value of equity-based	Severance indemnities for end of office or termination of employment
				75,000.00 €		
				40,000.00 €		
				115,000.00 €		
				85,000.00 €		
				40,000.00 €		
				125,000.00 €		
				35,000.00 €		
				35,000.00 €		
				55,000.00 €		
				55,000.00 €		
				45,000.00 €		
				45,000.00 €		
				45,000.00 €		
				45,000.00 €		

(13) Remuneration for the office of Chairman/Chairwoman of the Audit, Risk and Corporate Governance Committee.
(14) Remuneration as a member of the Audit, Risk and Corporate Governance Committee.
(15) Remuneration for the office of Coordinator of the Related-Parties Committee.
(16) Remuneration as member of the Related-Parties Committee.
(18) Value of short-term incentives (MBO) relative to assigned targets for 2014 for the Chief Executive Officer.
(19) Value of short-term incentives (MBO) relative to assigned targets for 2014 for the General Manager.
(23) Remuneration for the office of Coordinator of the Appointments Committee.
(24) Remuneration as member of the Appointments Committee.

Table 3B

MONETARY INCENTIVE PLANS FOR DIRECTORS, GENERAL MANAGERS AND OTHER SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

A	B	1	2			3			4
Name and surname	Office	Plan	Yearly bonuses			Bonuses for previous years			Other bonuses
			(A)	(B)	(C)	(A)	(B)	(C)	
			Payable/ paid	Deferred	Deferral period	No longer payable	Payable/ paid	Still deferred	
Del Fante Matteo	Chief Executive Officer								
(I) Remuneration in the company that draws up the Financial Statements		MBO (CEO)	200,000.00 €						
		MBO (GM)	450,000.00 €						
		LTI PLAN 2014–2015 (GM)					1,100,000.00 €		
		LTI PLAN 2016-2018 (GM)		550,000.00 €	(*)				
(II) Remuneration from subsidiaries and associates									
(III) TOTAL			**650,000.00 €**	**550,000.00 €**			**1,100,000.00 €**		

(*) Verification of achievement of the objectives associated with the incentive will be carried out by the Board of Directors on the basis of information provided by the Remuneration Committee when approving the Financial Statements at 31/12/2018 (the amount in column 2B represents the maximum amount payable, for the year 2016, for highest achievement of the three-year targets defined in the 2016–2018 LTI plan).

Scheme 7-*ter* - Table 1

SHAREHOLDINGS HELD BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND SENIOR EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Shares held by Directors, Auditors, General Managers and Senior Executives with Strategic Responsibilities

Pursuant to the provisions of Art. 84-quater, paragraph 4, of CONSOB Resolution no. 11971/99, in the tables below, the shares of TERNA S.p.A. and its subsidiaries are listed held by Directors, Auditors, General Managers (**Table 1**), and by Senior executives with strategic responsibilities (**Table 2***), as well as by not legally separated spouses and underage children, directly or through subsidiaries, trust companies or third parties, as indicated in the company's shareholder books, in notices received and other information obtained by the members of administration and audit bodies, general managers and senior executives with strategic responsibilities themselves. Therefore, all those who, in 2016, held positions as Directors, Auditors, general managers or senior executives with strategic responsibilities are included.

** Table 2 is not shown since the only senior executive of the Company with strategic responsibilities in 2016 was the General Manager.*

Name and surname	Office	Shareholding in company	Number of shares held as of the end of the previous year (2015)	Number of shares purchased (in 2016)	Number of shares sold (in 2016)	Number of shares held as of the end of the current year 2016	Ownership[1]
Bastioli Catia	Chairwoman of the Board	TERNA S.p.A.	2,100[2]	0	0	2,100[2]	Owner
Del Fante Matteo	CEO and General Manager	TERNA S.p.A.	0	0	0	0	-
Calari Cesare	Director	TERNA S.p.A.	0	0	0	0	-
Cerami Carlo	Director	TERNA S.p.A.	0	0	0	0	-
Corsico Fabio	Director	TERNA S.p.A.	0	0	0	0	-
Dal Fabbro Luca	Director	TERNA S.p.A.	0	0	0	0	-
He Yunpeng[3]		TERNA S.p.A.	0	0	0	0	-
Porcelli Gabriella	Director	TERNA S.p.A.	0	0	0	0	-
Saglia Stefano	Director	TERNA S.p.A.	0	0	0	0	-
Schioppo Riccardo Enrico Maria	Presidente del Collegio Sindacale	TERNA S.p.A.	0	0	0	0	-
Simone Vincenzo	Standing Auditor	TERNA S.p.A.	0	0	0	0	-
Zunino de Pignier Maria Alessandra	Standing Auditor	TERNA S.p.A.	0	0	0	0	-
Pagani Raffaella Annamaria	Alternate Auditor	TERNA S.p.A.	0	0	0	0	-
Mantegazza Cesare Felice	Alternate Auditor	TERNA S.p.A.	0	0	0	0	-
Ricotti Renata Maria	Alternate Auditor	TERNA S.p.A.	0	0	0	0	-

(1) This column – addition to Scheme 7-*ter* of Attachment 3A as set out by Art. 84-*quater*, paragraph 4, of CONSOB Resolution No. 11971/99 – shows if the participation is held as ownership, collateral, usufruct, deposit, carry forward, etc.
(2) Of which 2,100 shares held by cohabitant.
(3) The Director Yungpeng He was appointed on 21 January 2015 by co-optation, pursuant to Art. 2386 of the Italian Civil Code, by indication of the relative majority shareholder CDP Reti S.p.A., a joint-stock company controlled by Cassa Depositi e Prestiti S.p.A. and subsequently confirmed by the Shareholders' Meeting of 9 June 2015.

Glossary

Audit, Risk and Corporate Governance Committee: established within the Board of Directors on the basis of Principle 7 of the Corporate Governance Code. It is composed of independent Directors or, alternatively, by at least 3 non-executive Directors, the majority of whom are independent and in this case the Chairman of the Committee shall be independent. For a description of the functions of the Audit, Risk and Corporate Governance Committee, refer to the Report on Corporate Governance and Ownership Structures.

Board of Directors (BoD): the collective body responsible for the management of the Company. The Board of Directors of Terna S.p.A. consists of 9 Directors. It is the body responsible for matters including the approval of the Remuneration Policy proposed by the Remuneration Committee.

Board of Statutory Auditors: this is the internal supervisory body of the Company, which is attributed the function of supervising the observance of the law and of the By-laws, compliance with the principles of sound administration and, in particular, on the adequacy of the organisational, administrative and accounting procedures adopted by the Company and its concrete operation. It expresses a mandatory, though not binding, opinion on the definition of the Remuneration Policy for Directors holding special office, which must be taken into account in the decisions taken by the Board of Directors.

Clawback*:* contractual mechanisms to allow the Company to request the return, in whole or in part, of the variable components of remuneration paid that were calculated based on results that later turned out to be wrong due to fraudulent conduct or gross negligence by the Beneficiary or performed in violation of the reference rules (company, legal and regulatory, etc.), and without which the relevant results would not have been achieved.

Consolidated Law on Finance: this is the Italian "Consolidated Law on Financial Intermediation" i.e. Legislative Decree No. 58 of 24 February 1998 (as amended).

Corporate Governance Code: as defined by Borsa Italiana in July 2015, this is the "Self-regulatory code for Listed Companies in relation to Corporate Governance Code". The document embodies a number of details about best practices on the organisation and operation of listed companies in Italy. These recommendations are not binding, even if listed companies should "keep the market and its shareholders informed about its governance structure and the degree of adherence to the Code".

Directors holding special office: the Chairperson of the Board of Directors and the Chief Executive Officer.

Directors not holding special office: all the Directors with the exclusion of the Chairperson of the Board of Directors and the Chief Executive Officer.

Dow Jones Sustainability Index (or DJSI or Index): the sustainability index published annually by RobecoSAM, made up of listed Companies that are considered the best for sustainability performance and corporate social responsibility (CSR); in the present document specific reference is made to the **"World"** Index.

Entry level*:* minimum level of performance indicators, below which the incentive plans do not provide for any bonuses.

Executive Directors: the CEOs of the Company or of a subsidiary of strategic importance, including chairmen thereof when granted with individual management powers or when they play a specific role in the formulation of business strategies; executive directors are also those who hold management positions in the company or in a subsidiary of strategic importance, or in the parent company when the position also regards Terna. Finally, executive directors are also those directors who are members of the Executive Committee, when no Chief Executive Officer has been identified or when participation in the Executive Committee, taking into account the frequency of meetings and the subject of related resolutions, actually entails the systematic involvement of its members in the current management of Terna.

Gate*:* "gate condition" failure to achieve which does not enable the bonus to be paid.

Gross Annual Salary (RAL): the annual gross remuneration paid, inclusive only of fixed elements of employee remuneration. It excludes benefits paid in accordance with the employment contract and any amounts paid on an occasional basis for reimbursement of expenses, as well as any bonuses and variable components even if defined as guaranteed and/or paid on a one-off or continuous basis, either repeated or deferred, and the share of employee termination benefits and any indemnity provided for by law and by the applicable collective agreement.

Key Performance Indicator (KPI): the indicator used to measure the performance and achievement of pre-defined objectives.

Issuers' Regulation: CONSOB Issuers' Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions, which contains the rules relating to issuers of financial instruments.

Long Term Incentive Plan (LTI)*:* this is the long-term incentive plan that provides the persons concerned with a monetary bonus, based on the achievement of long-term objectives defined by the Company.

Management by Objectives (MBO)*:* the short-term incentive plan that enables the individuals involved to receive an annual cash bonus, based on established objectives and agreed with each participant in the Plan.

Maximum overperformance objective: this is the maximum level of achievement of objectives that entitles the person concerned to get a maximum pre-determined percentage, above 100% of the incentive.

Regulation on Related-Party Transactions: is the CONSOB Regulation No. 17221 of March 10, 2010 that identifies the rules to ensure transparency and the substantial and procedural correctness of related-party transactions carried out directly by the Company or through its subsidiaries.

Related-Parties Committee: consists of 3 independent directors who were assigned the functions and duties set out by the CONSOB Regulation 17221/2010. For a description of the functions of the Related-Parties Committee, one should refer to the Report on Corporate Governance and Ownership Structures.

Remuneration Committee: established within the Board of Directors on the basis of Principle 6 of the Corporate Governance Code. It is composed of independent Directors or, alternatively, by at least 3 non-executive Directors, the majority of whom are independent and in this case the Chairman of the Committee shall be independent. For a description of the functions of the Remuneration Committee, one should refer to the Report on Corporate Governance and Ownership Structures.

Shareholders' Meeting: the collective decision-making body of the Company. All holders of voting rights (either directly or by proxy) are represented within this body. It has the powers conferred on it by law and by the By-laws: the main ones are the approval of the Financial Statements, the appointment and removal of Directors, the Board of Statutory Auditors and its Chairman. With regard to Remuneration Policy, it expresses a non-binding opinion on Section I of the Remuneration Report.

Shareholder*:* any shareholder of the Company.

Stakeholder*:* any individual who holds an interest in the Company.

Senior executives with strategic responsibilities: these are persons who, directly or indirectly, have the power and responsibility for the planning, direction and control of the Company's operations. For the definition of "senior executives with strategic responsibilities", please refer to Annex 1 to the Regulations on Related-Party Transactions no. 17221 of March 12, 2010.

Target objective: this is the level of achievement of objectives, that entitles the person to receive 100% of the incentive.

Total Shareholder Return (or TSR): indicates the total return of an equity investment, calculated as the sum of the following components:

i) capital gain: ratio between the change in the share price (difference between the price recorded at the end and at the start of the period of reference) and the price recorded at the start of the same period;

ii) reinvested dividends: the ratio between the dividends per share distributed in the period of reference and the share price at the start of the same period. The dividends are considered reinvested in the stock. The source used for TSR is Bloomberg.

Vesting (vesting period): with reference to an incentive system this is the period that runs between allocation and maturation, that is when the right to receive the incentive is earned.

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